

# **SERVICING MICROENTREPRENEURS IN ALBANIA**

## **ALBANIA GRANT REPORT SEVENTEEN**

*Period from June 11, 2002 to September 10, 2002*

To the United States Agency for International Development

In fulfillment of the 1998-2003

USAID/Opportunity International Cooperative Agreement

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*Submitted by Opportunity International*

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## **PRINCIPLE OBJECTIVES**

1. Opportunity International Peer Evaluation
2. Complete transfer of operations and loan tracking to eMerge system
3. Hiring and training of new loan officers in Tirana, Shkodra, and Lushnje
4. Revision of PSHM loan documentation and application forms with training
5. Revision and Update of PSHM Finance Manual
6. Updated Annual Market Plan
7. Testing of Bailiff/Execution office in Kruje in collaboration with IRIS project

### **1. Opportunity International Peer Evaluation**

PSHM received a Peer Evaluation from a four member Opportunity International peer review team including the Network Chair, E. Europe Resource Manager, CEO of Poland program and HR Director of Montenegro program. An overall score of 3.93/5 was awarded with full accreditation by Opportunity International. Minimum required score is a 3. Areas of review included Vision and Values (4.2), Governance (4.4), People and Internal Relationships (3.8), Funding and External Relationships (4.5), Administration and Control (3.6), Operational Performance (3.7) and Transformational Impact (3.4). A detailed report was provided to PSHM to assist in further development.

The Peer Evaluation is performed every three years to ensure all Implementing Partners meet OI standards and consistency.

### **2. Complete transfer of Operations and Loan Tracking to eMerge system**

PSHM completed the transfer of information from two separate Management Information and accounting systems to an integrated system designed for the Microfinance industry and allowing great potential for growth as PSHM grows and develops. The new system allows all loans to be tracked in various ways. PSHM staff still requires training on enquiry and report writing that will allow PSHM to build reports meeting exact needs of PSHM and funders.

The new system is a network-based system that significantly improves speed and access to information to all staff (currently in the headquarters). A branch module is expected in the next months that will allow daily access to all PSHM staff.

The integration between loan tracking and accounting ensures much better management, supervision and control of PSHM activities and makes future growth and expansion easier.

### **3. Hiring of new loan officers in Tirana, Shkodra and Lushnje**

PSHM hired and trained 3 new loan officers for Tirana, Lushnje, Shkodra. The loan officers in Tirana and Lushnje replaced two loan officers emigrating to Italy. The Loan Officer in Shkodra was hired in anticipation of increased economic activities due to the improving national highway and the reopening of the Shkodra border crossing between Albania and Montenegro. Increased business activity in and around the Skodra region has been noted due to both events.

#### **4. Revision of PSHM loan Documentation and application forms and training**

A staff team and senior management performed a complete revision of all loan documentation. The new documentation improves cash flow analysis and market position through increased use of standard ratios and sales analysis. Staff training was held prior to implementation of the new forms. PSHM feels this will improve client selection and analysis and improve portfolio quality. Revisions also will increase the quality of information and allow for a more effective and efficient application process.

#### **5. Revision and Update of PSHM Finance Manual**

The revision of the PSHM Finance Manual will allow for better controls on finance activities. The revision is particularly necessary in light of the implementation of the above mentioned eMerge MIS. As PSHM increases its professionalism, solid policies and procedures ensure the consistent management, supervision and control of the organization.

#### **6. Update of Annual Market Plan**

PSHM completed the update of its Market Study. The market plan will be completed in October and include specific goals and objectives, activities and responsible parties. Activities will be monitored by all staff at both branch and headquarter levels. The Market Study shows PSHM clients are comprised as follows: 11% agricultural related activities, 28% Service activities, 44% Trade activities, and 17% production activities. PSHM conservatively estimates the potential market for non-agriculture loans is at least 72,000 and agriculture related activities to be at least 93,000. Based on these conservative figures, PSHM estimates that less than 11.8% of the potential micro loan clients are being served by current microfinance activity.

#### **7. Testing of Bailiff/Execution office in Kruje in coordination with IRIS project**

PSHM received the executive title to two trucks from written-off clients in the Kruje region. The executive title was submitted to the bailiff office for the legal execution and transfer of assets to PSHM under the movable properties laws and registry. The effort was successful, leading one client to repay PSHM. The second truck is blocked and in PSHM's possession. Sales of the truck will be made according to the Albanian laws. The collection process was not without difficulties. The actual time between submitting the court approved executive title and the blocking of the property by the bailiff office took over 1.5 months, the role of the bailiff officers was confused and the laws leave many "gray" areas.

It is believed that PSHM's execution is the first to take place in Albania under the new law. As the process becomes more standard, PSHM hopes that this process will serve as an improved mechanism to secure credit by not only PSHM, but also the commercial banking sector in Albania.

#### **Other Activities:**

1. Council of Supervisor Retreat in Shkodra
2. CEO attends Micro Banking Summer Academy
3. Initial application to Blue Orchard Finance for commercial funding

## **DIFFICULTIES AND CONSTRAINTS**

As mentioned above, the bailiff offices are still unclear about the new movable property laws. Many parts of the new law supersede or expand on the civil code, but many loopholes and unclear areas exist including whether notice is required to debtor prior to collection as is the law for immovable property, who maintains control after the property is blocked, and territorial jurisdiction.

PSHM has faced the emigration of 2 loan officers to Italy and its MIS coordinator to the USA between August and October. All three had strong experience with PSHM and potential to add strengths to PSHM. These emigrations force PSHM to hire and train new staff rather than being able to focus on development and improvement of existing staff and high levels of service to clients.

## **FUTURE ACTIVITIES**

1. External CGAP accredited Rating by Mikrofinanza
2. Activity Based Costing (ABC) exercise based on CGAP practices
3. Human Resource Consultation and review
4. Development and Implementation of Internal Audit Function
5. Prepare Application to at least one local bank for commercial funding
6. Opportunity International E. Europe CEO and Board Training
7. New Product Pilot Phase for loans under 150,000 Leke (1,100 USD)
8. Developing small guarantee fund in Shkodra region with ETIMOS

## **PROGRAM INDICATORS**

*As of September 30, 2001*

Number of Active Micro-Clients: 1,759  
Number of Micro-Loans Made This Period: 355  
Cumulative Number of Micro-Loans Made: 5,804  
Amount Lent This Period (Micro): US\$938,532  
Cumulative Amount Lent (Micro): US\$8,990,634  
Current Loan Portfolio: US\$ 2,181,786  
On-Time Repayment Rate: 96.0%

Note: (1 USD = 140 Leke)